



CITY OF LODI

COUNCIL COMMUNICATION

AGENDA TITLE: Authorize increase of \$2,513.75 to the monthly fee paid to Mid-Central Valley Insurance Producers, Inc., and authorize staff to request competitive proposals for Broker of Record contract

MEETING DATE: August 2, 2000

SUBMITTED BY: Human Resources Director

RECOMMENDED ACTION: That City Council authorize an increase of \$2,513.75 to the monthly fee paid to Mid-Central Valley Insurance Producers, Inc., for their services as Broker of Record, and authorize staff to request competitive proposals for the Broker of Record contract.

BACKGROUND INFORMATION: Since its inception as the City's Broker of Record on February 1, 1998, Mid-Central Valley Insurance Producers, Inc. (MCV) has assisted the City with various employee benefit programs in numerous ways. In the process, MCV uncovered unanticipated problems that required extra effort from their staff as well as outside technical support. The attached letter from Mr. Ehlers describes additional costs MCV has encountered. Examples are reformatting and reentering data in eligibility lists, the hiring of approximately 1.8 FTE's to work on City business, and increased rates MCV must pay their service providers. The selection of a Long Term Disability provider is also cited. While the City intends to move forward on this, it must ensure the choice of provider is made carefully - this contract will probably last several years. In FY 1999-00 alone, approximately \$17,190 was saved by self funding this program versus using a contract provider.

MCV currently receives a monthly fee of \$4,186.25. They estimate their expense to provide service to the City of Lodi to be \$6,700/month. This generates a loss to MCV of \$2,513.75/month. They are requesting their monthly fee be increased by this amount.

It has never been the City's intention to have its Broker provide service at a loss. Staff is recommending the authorization of an increase of \$2,513.75/month to the fee paid to MCV. However, staff must also secure the best value for City of Lodi taxpayers' dollars. With Council authorization, during Fiscal Year 2000-01, staff will go out to the market (including MCV) to request competitive proposals for the Broker of Record contract. Although important, price will only be one component of the decision making process.

FUNDING: Benefits fund

Ruby R. Saint for
Vicky McAthie, Finance Director

Respectfully submitted,

Joanne M. Narloch for JN
Joanne M. Narloch, Human Resources Director

APPROVED: _____

H. Dixon Flynn
H. Dixon Flynn - City Manager

MAX ELSON INSURANCE, INC.

Division of
MID-CENTRAL VALLEY INSURANCE PRODUCERS, INC.

plans, we rolled up our sleeves and put forth the time and energy necessary to bring this program to a resolve, at no small cost to our agency. The change has saved the City approximately \$1,580 monthly in administration and Dental services each month; \$14,200 savings to date.

There have been and continue to be redundancies in requoting various Benefit Plans and updating spreadsheet comparisons of benefits, related costs, providers' services, etc. This usually occurs because of schedule conflicts between Staff and Bargaining Unit and/or busy schedules. As insurance proposals are extremely date sensitive, delays beyond thirty days require a resubmission and recalculation of rates and premiums. To make matters worse, the requotes are almost always needed immediately, necessitating 100% dedication and overtime hours by our staff to accomplish the request.

A recent example is Long Term Disability. This has been presented and discussed at length with City Staff on several occasions and thus far, no contract has been put in place. The City continues to self fund this benefit as well as assuming the responsibility of administrating the Disability Benefits which includes the determination of the eligibility benefits. The transfer of this risk to an insurance carrier rids the City of the potential loss *and* the professional liability resulting from eligibility determination.

In addition to all of the above, our staffing for our Employee Benefit Department has gone from two to five. While this fortunately is not all the result of City work, we conservatively estimate that two employees spend 90% of their work day on City related issues. COBRA Pro, the company we contract with for COBRA issues has increased their rate schedule by 10% - another expense we absorbed.

To restate parts of our discussion, our response to the original RFP was a serious one. As you have pointed out, we got what we wanted, which we are thankful for. Rather than start over with a new Third Party Administrator it would seem appropriate to try to work through the cost factor with the agency that has been there. I assure you that anyone would start the learning process anew and arrive at the same place where we are within a short time.

To the credit of your management team, they demand the best for City employees, not only in coverage but in service. We are still dedicated to providing the City this service – we just needed an adjustment in our compensation.

As mentioned before, please feel free to call myself, Ron Dancer or Jim Elson should you like to discuss this at greater length.

Best Regards,



JIM EHLERS

JE;bjd

MAX ELSON INSURANCE, INC.
Division of
MID-CENTRAL VALLEY INSURANCE PRODUCERS, INC.

June 27, 2000

Mr. H. Dixon Flynn, City Manager
CITY OF LODI
221 W. Pine Street
Lodi, CA 95240

Re: Agency Fee

Dear Dixon:

As we discussed, since the inception of serving as the Broker of Record for the City of Lodi (February 1, 1998), we assisted Joanne and her staff in restructuring the City's various Employee Benefits Programs. In the process, we uncovered innumerable, unanticipated problems requiring extraordinary services from Ron Dancer, our staff and outside technical support (computer techs) to develop the favorable results we are enjoying today.

We calculate this process of evaluating most areas of the various Benefit Programs for each Bargaining Unit and ongoing services has cost our agency a loss in excess of \$50,000 over the past 28 months.

Currently we receive a monthly fee of \$4,186.25 and we estimate our agency's expense to provide the services requested by the City of Lodi to be approximately \$6,700.00, continuing to develop a loss to our agency of \$2,513.75. Consequently, we are respectfully requesting our monthly fee be increased by this amount.

Your early response to this request would be greatly appreciated.

Sincerely,


JIM EHLERS

JE;bjd

RESOLUTION NO. 2000-140

A RESOLUTION OF THE LODI CITY COUNCIL AUTHORIZING
INCREASE IN MONTHLY FEE PAID TO MID-CENTRAL VALLEY
INSURANCE PRODUCERS AS THE BROKER OF RECORD FOR
THE CITY OF LODI FOR EMPLOYEE BENEFITS, AND FURTHER
AUTHORIZING STAFF TO SOLICIT PROPOSALS FOR THE
BROKER OF RECORD CONTRACT

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WHEREAS, the Lodi City Council approved the contract with Mid-Central Valley Insurance Producers (MCV) as the Broker of Record for the City of Lodi for employee benefits in the amount of \$49,250.00 on January 21, 1998; and

WHEREAS, in the process of providing this service to the City of Lodi, Mid-Central Valley Insurance Producers have incurred unanticipated costs and is currently operating at a loss of \$2,513.75 per month; and

WHEREAS, MCV requests an increase of \$2,513.75 in their monthly fee bringing the total monthly fee to \$6,700.00; and

WHEREAS, staff recommends approving this fee increase and then during fiscal year 2000-2001 seek competitive proposals for the Broker of Record Contract.

NOW, THEREFORE, BE IT RESOLVED, that the City Council of the City of Lodi hereby authorizes an increase of \$2,513.75 in Mid-Central Valley Insurance Producers, Inc. monthly fee as the Broker of Record for the City of Lodi for employee benefits, and further authorizes staff to solicit proposals for the Broker of Record contract during fiscal year 2000-2001.

Dated: August 2, 2000

I hereby certify that Resolution No. 2000-140 was passed and adopted by the City Council of the City of Lodi in a regular meeting held August 2, 2000 by the following vote:

AYES: COUNCIL MEMBERS – Hitchcock, Land, Nakanishi,
Pennino and Mann (Mayor)

NOES: COUNCIL MEMBERS – None

ABSENT: COUNCIL MEMBERS – None

ABSTAIN: COUNCIL MEMBERS – None


SUSAN J. BLACKSTON
City Clerk

MAX ELSON INSURANCE, INC.
Division of
MID-CENTRAL VALLEY INSURANCE PRODUCERS, INC.

July 7, 2000

Mr. Dixon Flynn, City Manager
CITY OF LODI
221 West Pine St.
Lodi, CA 95240

Re: Agency Fee for Services

Dear Dixon:

Thanks for your time spent discussing the fee structure for the benefit program. As we agreed, effective August 1, 2000 we will amend our fee to \$6,700 per month.

This is a brief overview of the services and time issues, should it be required. If at any time you feel you need further input regarding this, please don't hesitate to call.

Regarding the possibility of an RFP for these services, we offer the following for your consideration.

We refund all commissions received on the City's benefit program. This has amounted to \$30,098 over the past twelve months. This breaks down to \$2,508 monthly, which effectively reduces our monthly fee to a net \$1,678 for services rendered.

Since the inception of the Broker of Record, February 1, 1998 to present, the services required of us by City Staff and its membership have been significantly greater than anyone could have imagined. We estimate conservatively that the net loss to our agency has been in excess of \$50,000 during the past twenty-eight months. We mention this not because we expect to recoup any of this or to elicit any sympathy, but just as a reference point. Our proposal through the original RFP process was made with the understanding that there would be start up costs and a learning curve. We are well beyond this and as much as we enjoy working with your staff and servicing your employees needs, we need to stop the negative cash flow.

In addition to the normal customer service issues we have spent a disproportionate amount of time on eligibility lists. This is an ongoing exercise with list formats constantly changing. As an example, the change from Foundation to Health Net required that the entire eligibility list be reentered in a format that Health Net required. A more recent example was the change from Delta Dental to Stanislaus/San Joaquin Dental – again another eligibility list. While there are a multitude of circumstances that can trigger a need for a new list, the most common are changes in the field requirements and/or a change in the actual data base program. Y2K required further changes. These are all beyond our control but necessary to do.

With regard to service issues, again we refer to the change in the dental plan. This was a change that did not go as smoothly as we would have liked. After the decision was made to change